

Minutes of the New Jersey Health Care Facilities Financing Authority meeting held on June 25, 2009 on the fourth floor of Building #4, Station Plaza, 22 South Clinton Avenue, Trenton, New Jersey.

The following **Authority Members** were in attendance:

Gus Escher, Public Member (Chairing as Vice Chair); Maryann Kralik, Designee of the Commissioner of Banking and Insurance; Eileen Stokley, Designee of the Commissioner of Human Services (via telephone); and, John Calabria, Designee of the Commissioner of Health and Senior Services.

The following **Authority staff members** were in attendance:

Mark Hopkins, Dennis Hancock, Steve Fillebrown, Jim Van Wart, Lou George, Suzanne Walton, Bill McLaughlin, Edwin Fuentes, Carole Conover, Michael Ittleson, Arvella King, Ron Marmelstein, and Stephanie Bilovsky.

The following **representatives from State offices and/or the public** were in attendance:

Robert Wood, Shore Memorial Hospital; Stuart Carr, Cain Brothers; Howard Eichenbaum, Gluck Walrath; Joseph Neal, Governor's Authorities Unit; and, Kavin Mistry, Deputy Attorney General.

### **CALL TO ORDER**

Gus Escher called the meeting to order at 10:03 a.m. and announced that this was a regular meeting of the Authority, held in accordance with the schedule adopted at the May 28, 2009 Authority meeting. Complying with the Open Public Meetings Act and the Authority's By-laws, notice of this meeting was delivered to all newspapers with mailboxes at the Statehouse, including *The Star-Ledger* and the *Courier Post*, enough in advance to permit the publication of an announcement at least 48 hours before the meeting.

### **APPROVAL OF MINUTES**

#### **A. May 28, 2009 Authority Meeting**

Minutes from the Authority's May 28, 2009 meeting were presented for approval. Ms. Kralik offered a motion to approve the minutes; Ms. Stokley seconded. Mr. Escher voted yes, Ms. Kralik voted yes, Mr. Calabria abstained, and Ms. Stokley voted yes. The minutes were approved.

### **BOND SALE REPORT**

#### ***The Community Hospital Group, Inc.***

***(t/a JFK Medical Center, referred to here by its parent corporation name, Solaris Health System)***

Lou George reported that the Authority, with the Office of Public Finance, successfully priced \$152,925,000 of State Contract Bonds through the Hospital Asset Transformation Program on behalf of Solaris Health System. The bonds were scheduled for a two-day pricing consisting of a retail order period on Wednesday June 10th followed by an institutional order period the following day. The initial structure involved serial bonds in 2013 through 2019 and

term bonds in 2024 and 2031. On Wednesday morning, the underwriter indicated that there was a large \$4.5 billion Puerto Rico deal that was also scheduled to enter the market. That transaction, together with others coming to market caused an increase in supply that translated into 50 basis point rate increase from Tuesday to Wednesday on the serials and a 35 basis point increase on the 2024 term bond. The transaction entered the market for the retail order period late Wednesday morning. Later that afternoon, the underwriter indicated that they had \$10 million of orders.

On Thursday morning, the underwriter indicated that, while the treasury market was good, municipals remained sluggish and that the supply continued to create uncertainty. The underwriter suggested a restructuring by keeping the 2013 and 2014 serials in place but consolidating the 2015 through 2019 serials into a term bond. It was decided not to immediately enter the market because of the market uncertainty; the working group considered postponing the offering for a week, but there were timing constraints from both the Hospital and the State perspective. Later that afternoon, the Authority and the Office of Public Finance agreed to enter the market for the institutional pricing.

At around 4:00 p.m., the underwriter came back with an offer to purchase. While most of the bonds were sold, the underwriter indicated that there were some remaining balances in the 2013 and 2014 maturities. The offer was accepted with yields as follows: 3-7/8% for the 2013 serials, 4% for the 2014 serials, 5% for the 2019 maturity, 5.5% for the 2024 maturity, and 5.93% for the 2031 maturity. These interest rates, together with the expense components, resulted in an all-in true interest cost of 5.77%. The transaction was successfully closed on June 18th.

Mr. Escher asked about the financial impact of collapsing the serials, to which Mr. George replied that, as an educated guess, he would suggest that the impact may have been an increase by approximately 50 basis points, but only on the approximately \$30 million of bonds issued within that range. He reiterated that, if it were not for the time constraints of the State's unresolved budget and the swap termination requirements, the working group probably would have waited to enter the market.

This report was for informational purposes only; no action was required.

## ***NEGOTIATED SALE REQUEST***

### ***Shore Memorial Hospital***

Mark Hopkins introduced Robert Wood, the Director of Finance for Shore Memorial Hospital. He then reported that Shore Memorial Hospital, Inc. ("Shore") signed a Memorandum of Understanding with the Authority to undertake a tax-exempt plan of financing, the proceeds of which would be used to finance: (i) the construction of a 139,000 square foot surgical pavilion, including new operating rooms, endoscopy suites, interventional suites, sterile processing/surgical recovery processing, (ii) routine capital expenditures, (iii) a debt service reserve fund, if necessary, and (iv) costs of issuance. The surgical pavillion is expected to cost approximately \$80 million.

Shore expects to finance approximately \$45 million through the Authority in two phases: approximately \$30 million in 2009 and approximately \$15 million in 2010. According to Shore, the remainder of the project costs will come from cash on hand, philanthropy and possibly other sources. Shore had approximately \$80 million cash on hand at the end of 2008.

Mr. Hopkins reported that, on behalf of Shore and its obligated group, the Authority issued approximately \$34.1 million and \$31.2 million in bonds in 1993 and 2003, respectively.

As of March 31, 2009, approximately \$6.3 million remained outstanding on the 1993 bonds and \$26.2 million remained outstanding on the 2003 bonds. None of those bonds are expected to be refunded through this financing. The Authority also issued bonds on behalf of Shore or its affiliates in 1974, 1982, 1987 and 1989. None of those bonds remain outstanding.

Shore's facility is a 296-bed not-for-profit acute care hospital located in Somers Point, New Jersey. Its corporate parent, Shore Memorial Health System, is also a not-for-profit corporation and is the corporate parent to the following affiliates: Shore Memorial Health Foundation, Inc., Shore Health Services Corporation, Shore Health Enterprises, Inc. and Shore Memorial Properties, Inc.

Mr. Hopkins stated that, according to Shore's audited financial statements provided with the Memorandum of Understanding, Shore generated a deficiency in revenues over expenses of approximately \$8 million in 2008 and excess revenues over expenses of approximately \$7.9 million in 2007. The loss in 2008 was primarily attributable to an almost \$10.8 million loss in investments, offset by net operating income of approximately \$2.8 million. Unaudited information for the first four months of 2009 shows a loss from operations of approximately \$309,000.

Shore asked that the Authority permit the use of a negotiated private placement sale based on: (i) the sale of a complex or poor credit; (ii) market volatility; and (iii) the issuance of variable rate bonds. Because the Authority's Executive Order #26 policy considers these to be justification for the use of a negotiated private placement, staff recommended the consideration of a resolution approving the use of a negotiated private placement sale and the forwarding of a copy of the justification in support of said resolution to the State Treasurer.

Mr. Hopkins added that, after performing a competitive process, Shore selected Cain Brothers as placement agent for the bonds. Additionally, Shore researched several law firms from the Authority's qualified list and received approval from the Attorney General's Office for Gibbons law firm to serve as bond counsel.

Mr. Escher asked if the resolution under consideration at this meeting would allow a private placement for both phases or just the first phase, to which Mr. Hopkins replied that the resolution would approve the use of a negotiated private placement for both phases. Mr. Escher asked about the financings' timelines, to which Mr. Wood stated that Shore would seek to close the financing for the first phase by September 15, 2009 and for the second phase in early 2010.

Mr. Escher moved to adopt the resolution approving the pursuit of a negotiated sale on behalf of Shore Memorial Hospital, and the forwarding of a copy of the justification in support of said resolution to the State Treasurer. Ms. Kralik seconded. The vote was unanimous and the motion carried.

#### **AB RESOLUTION NO. JJ-09**

*(attached)*

At this point, Dennis Hancock noted that the splitting of the financing into two phases was, in part, in order to take advantage of bank qualified bonds. He asked if approving the use of a negotiated sale for both of the phases in one resolution would affect the way the Internal Revenue Service views the transaction regarding the dollar amount limitation for bank qualified bonds within a given year. Howard Eichenbaum stated that the IRS would likely make that determination based on the respective years in which the bonds are sold, not when the structure is approved.

### ***FINANCIAL PRINTING CONTRACT***

Michael Ittleson reported to the Members that the second of three possible one-year extensions of the contract with Bowne & Co. for financial printing services, which includes the printing of preliminary and final official statements as well as other related documents, expires on October 31, 2009.

Bowne & Co. had indicated their willingness to agree to the third and final one-year extension and in doing so, offered a 5% discount to their previously agreed above line costs. On behalf of staff, Mr. Ittleson requested the Members' consideration in appointing Bowne & Co. to the third and final one-year extension commencing November 1, 2009 and running through October 31, 2010.

Ms. Stokley made a motion to approve the extension; Ms. Kralik seconded. The vote was unanimous and the motion carried.

### **AB RESOLUTION NO. JJ-10**

**NOW, THEREFORE, BE IT RESOLVED**, that the Authority hereby approves the third and final one-year extension of its financial printing contract with Bowne & Co., with that extension running from November 1, 2009 through October 31, 2010.

### ***OLD/NEW BUSINESS***

#### ***Resolution of Appreciation for Dennis Hancock***

Mr. Escher reminded the Members that Dennis Hancock, the Authority's former Deputy Executive Director, had just retired from the Authority after more than 20 years of service. He then read a Resolution of Appreciation (attached) on Mr. Hancock's behalf.

Ms. Stokley offered a motion to adopt the Resolution of Appreciation on behalf of Dennis Hancock; Mr. Escher seconded. The vote was unanimous and the motion was carried.

### **AB RESOLUTION NO. JJ-11**

*(attached)*

Mr. Escher then presented Mr. Hancock with a framed certified copy of the resolution. Mr. Hancock said that while the resolution is an honor, it was even more of an honor to work with the fine staff and Membership of the Authority. He noted that the Authority is a professional and outstanding organization, adding that he had worked for a few other organizations and no where did he find a greater group of people than here. He complimented that the staff is not only knowledgeable, but also commendable for the ways in which they perform their jobs. He ended by thanking the Members and staff.

### ***AUTHORITY EXPENSES***

Mr. Escher referenced a summary of Authority expenses and invoices and then Ms. Kralik offered a motion to approve the bills and to authorize their payment; Mr. Calabria seconded. Mr. Escher voted yes, Ms. Kralik abstained, Mr. Calabria voted yes, and Ms. Stokley voted yes. The motion carried.

## **AB RESOLUTION NO. JJ-12**

**WHEREAS**, the Authority has reviewed memoranda dated June 18, 2009, summarizing all expenses incurred by the Authority in connection with FHA Mortgage Servicing, Trustee/Escrow Agent/Paying Agent fees, and general operating expenses in the amounts of \$199,807.83, \$93,963.85 and \$95,614.69 respectively, and has found such expenses to be appropriate;

**NOW, THEREFORE, BE IT RESOLVED**, that the Authority hereby approves all expenses as submitted and authorizes the execution of checks representing the payment thereof.

### ***STAFF REPORTS***

Mr. Escher thanked staff for their preparation of staff reports, including the Project Development Summary, Cash Flow Statement, and Legislative Advisory were distributed to the Members. Mr. Hopkins then presented his Executive Director's Report which stated the following:

1. Thank you to the Public Members of the Authority and Senior Staff for filing the necessary Financial Disclosure Statements with the State Ethics Commission on time.
2. In hospital news, John Ferguson has resigned as Chief Executive Officer ("CEO") of Hackensack University Medical Center, effective July 1st. Chief Operating Officer Robert Garrett will serve as acting CEO. Also, Colene Daniel has resigned as CEO of St. Mary's Hospital. She will be moving on to Hamad General Hospital in Qatar. Her last day was June 19th. She was replaced by Michael Sniffen, who was most recently CEO at Touro Infirmary in New Orleans and also served as CEO at Overlook Hospital and the Bon Secours & Canterbury Partnership for Care. Brian McIndoe has also announced his resignation as Chief Financial Officer of St. Mary's Hospital. He will be going to work at the Ryan White Health Clinics in New York. St. Mary's has not named his replacement.

Both Englewood and Bayonne settled tumultuous contract negotiations with their respective nurses unions last week.

Hackensack University Medical Center's application to reopen the former Pascack Valley Hospital is scheduled to be heard by the State Health Planning Board on July 23rd. A decision on the application is scheduled to be made by the Commissioner of Health & Senior Services within 120 days thereafter. Mr. Hopkins responded to a question from Mr. Escher by stating that this is part of the Certificate of Need process and that the State Health Planning Board will make a recommendation to the Commissioner on whether or not to approve the request.

Mr. Hopkins reminded the Members that the Authority agreed that if Catholic Health East's ("CHE") proposed 2009 bond issuance included credit enhancement such as bond insurance, the Authority would not apply its derivative policy to the transaction, deferring instead to the enhancer's policy. Since then, Randy Schultz of CHE informed staff that Assured

Guaranty has backed out of its proposal to insure the refunding bonds CHE planned to issue through the Authority.

3. In Authority News, the Authority's new Compliance Manager, Arvella King, started on June 8<sup>th</sup>. Arvella goes by "Archie" and staff is glad to have her on board. Sadly, June 30<sup>th</sup> will be the last day for the Authority's receptionist Evelynne Burroughs after more than 35 years of service to the Authority. She will be missed, but staff wishes her well in her retirement.

This concluded the Executive Director's report.

Mr. Hopkins provided a brief update on the condition of certain personnel out on long-term disability. The Members expressed their continued best wishes for those individuals.

### ***EXECUTIVE SESSION***

Mr. Escher asked the Members to meet in Executive Session, as permitted by the Open Public Meetings Act and the Authority's By-Laws, to discuss bankruptcy litigation and receive advice from the Attorney General's office regarding St. Mary's Hospital of Passaic. Ms. Kralik offered a motion to meet in Executive Session; Mr. Calabria seconded the motion. The vote was unanimous and the motion carried. Mr. Escher noted that the results of this discussion will be made public when the need for confidentiality no longer exists.

#### **AB RESOLUTION NO. JJ-13**

**NOW, THEREFORE, BE IT RESOLVED**, that, as permitted by the Open Public Meetings Act and the Authority's By-Laws, the Authority meet in Executive Session to discuss bankruptcy litigation and receive advice from the Attorney General's office regarding St. Mary's Hospital of Passaic;

**BE IT FURTHER RESOLVED**, that the results of discussions may be made known at such time as the need for confidentiality no longer exists.

Public session reconvened. As there was no further business to be addressed, following a motion by Ms. Kralik and a second by Ms. Stokley, the Members voted unanimously to adjourn the meeting at 10:40 a.m.

I HEREBY CERTIFY THAT THE  
FOREGOING IS A TRUE COPY OF  
MINUTES OF THE NEW JERSEY  
HEALTH CARE FACILITIES  
FINANCING AUTHORITY MEETING  
HELD ON JUNE 25, 2009.

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Carole A. Conover  
Assistant Secretary

**AB RESOLUTION NO. JJ-09**

**RESOLUTION OF INTENT TO ISSUE REVENUE BONDS BY  
PRIVATE PLACEMENT TRANSACTION PURSUANT TO  
EXECUTIVE ORDER NO. 26**

***Shore Memorial Hospital***

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**WHEREAS**, the New Jersey Health Care Facilities Financing Authority (the “Authority”) was duly created and now exists under the New Jersey Health Care Facilities Financing Authority Law, P.L. 1972, c. 29, N.J.S.A. 26:2I-1 et seq., as amended (the “Act”), for the purpose of ensuring that all health care organizations have access to financial resources to improve the health and welfare of the citizens of the State; and,

**WHEREAS**, the Authority issues its bonds from time to time for the achievement of its authorized purposes; and

**WHEREAS**, on October 25, 1994, the Governor issued Executive Order No. 26 which sets forth procedures by which an issuer may determine the method of sale of bonds or notes; and,

**WHEREAS**, on December 8, 1994, the Authority adopted Section 2 of its policy which was developed to implement Executive Order No. 26, which requires an Authority resolution to pursue a negotiated sale of bonds; and,

**WHEREAS**, on March 28, 1996, the Authority amended its policy related to Executive Order No. 26; and,

**WHEREAS**, the Authority’s policy states that a negotiated sale of bonds will be conducted if it is determined by the Authority that it would better serve the requirements of a particular financing; and,

**WHEREAS**, a negotiated transaction would be permitted in circumstances including, but not limited to, the sale of bonds for a complex or poor credit; the development of a complex financing structure, including those transactions that involve the simultaneous sale of more than one series with each series structured differently; volatile market conditions; large issue size; programs or financial techniques that are new to investors; or, for variable rate transactions; and,

**WHEREAS**, Shore Memorial Hospital has entered into a Memorandum of Understanding with the Authority to pursue a revenue bond financing (the “Financing”); and,

**WHEREAS**, Shore Memorial Hospital has requested that the Authority consider approving the pursuit of a negotiated sale; and,

**WHEREAS**, the Financing could be considered a complex or poor credit; and,

**WHEREAS**, market conditions could be considered volatile; and,

**WHEREAS**, Shore Memorial Hospital is considering the issuance of variable rate bonds for all or a portion of the Financing; and,

**WHEREAS**, Shore Memorial Hospital has requested consideration of a determination that a negotiated private placement sale is the appropriate method of financing; and,

**WHEREAS**, the Authority's policy states that a private placement would be permitted if, on an analysis by the borrower, a private placement would be more beneficial to the borrower than a public sale, and the borrower provides, in writing, the reasons for the use of a private placement; and,,

**WHEREAS**, Shore Memorial Hospital provided such reasons; and,

**WHEREAS**, the Authority is desirous of being responsive to Shore Memorial Hospital's request; and,

**WHEREAS**, the aforementioned resolution and justification in support of such resolution must be filed, within five days of its adoption, with the State Treasurer;

**NOW, THEREFORE, BE IT RESOLVED**, that, based upon the above findings, the Authority hereby determines that it would better serve the requirements of this Financing to conduct a negotiated sale; and,

**BE IT FURTHER RESOLVED**, that the Executive Director is hereby directed and authorized to transmit a copy of this Resolution and justification in support of such resolution to the State Treasurer.



## **AB RESOLUTION NO. JJ-11**

### **RESOLUTION OF APPRECIATION**

*Dennis P. Hancock*

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**WHEREAS**, the New Jersey Health Care Facilities Financing Authority (“Authority”) was created through the enactment of Chapter 29, Laws of New Jersey 1972, which was amended in January of 1998 to ensure that all health care organizations have access to financial resources to improve the health and welfare of the citizens of the State; and,

**WHEREAS**, Dennis P. Hancock first joined the Authority staff in November of 1978; and,

**WHEREAS**, in addition to being named Deputy Executive Director on January 1, 1997, Dennis P. Hancock also served as Director of Financial Management, Senior Project Manager, and Director of Project Management at the Authority; and,

**WHEREAS**, Dennis P. Hancock served the Authority through the tenures of ten Governors, nine Commissioners of Health, and six Executive Directors; and,

**WHEREAS**, Dennis P. Hancock oversaw 243 Authority transactions on behalf of 123 different borrowers totaling \$7,450,016,668 during his tenure with the Authority; and,

**WHEREAS**, throughout that tenure, Dennis P. Hancock was a proactive director, demonstrating initiative and leadership on issues effecting the State’s health care institutions “to ensure that all health care organizations have access to financial resources to improve the health and welfare of the citizens of the State”; and,

**WHEREAS**, Dennis P. Hancock spearheaded several projects at the Authority that required working with industry experts through working groups and with the Authority Members through open communication and organized retreats to create best practices for the Authority, its borrowers and its bondholders; and,

**WHEREAS**, during his tenure, Dennis P. Hancock addressed a number of challenging financial situations such as distressed hospital credits, bond structure conversions, and extreme market volatility including the near trading halt of 2008; and,

**WHEREAS**, Dennis P. Hancock also addressed a number of complex financing policies such as the requirement for mortgage and title insurance, practices related to underwriter takedowns, and derivative product disclosure and limitations; and,

**WHEREAS**, during his tenure at the Authority, Dennis P. Hancock was an active participant in the Healthcare Financial Management Association, including serving on the organization’s Communications Committee; and,

**WHEREAS**, after more than twenty-one years of service with the Authority, Dennis P. Hancock retires from his post on July 1, 2009; and

**WHEREAS**, the Authority wishes to acknowledge Dennis P. Hancock for his dedicated service to the Authority and the New Jersey health care organizations which it supports; and,

**WHEREAS**, the Authority wishes to acknowledge Dennis P. Hancock's commitment to the Authority and to applaud the integrity which he demonstrated in carrying out the Authority's mission and goals;

**NOW, THEREFORE, BE IT RESOLVED**, that the New Jersey Health Care Facilities Financing Authority hereby expresses its appreciation to Dennis P. Hancock for his contributions to the Authority, the health care organizations, and the citizens of New Jersey; and,

**BE IT FURTHER RESOLVED**, that the New Jersey Health Care Facilities Financing Authority hereby expresses its sincere appreciation to Dennis P. Hancock for his dedication and loyalty; and,

**BE IT FURTHER RESOLVED**, that a copy of this Resolution of Appreciation be sent to Dennis P. Hancock as a tribute from the Authority for his service and accomplishments as Deputy Executive Director of the Authority.